

VZCZCXRO4362

RR RUEHBI RUEHCI RUEHDBU RUEHFL RUEHKW RUEHLA RUEHLH RUEHNEH RUEHNP
RUEHPW RUEHROV RUEHSL RUEHSR
DE RUEHTA #1622/01 2680850
ZNY CCCCC ZZH
R 250850Z SEP 09
FM AMEMBASSY ASTANA
TO RUEHC/SECSTATE WASHDC 6335
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE 1967
RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1336
RUEHUL/AMEMBASSY SEOUL 0987
RUEHKO/AMEMBASSY TOKYO 2035
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHINGTON DC
RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 1522
RUEKJCS/JOINT STAFF WASHDC
RUEKJCS/SECDEF WASHDC 1403

C O N F I D E N T I A L SECTION 01 OF 03 ASTANA 001622

SIPDIS

STATE FOR SCA/CEN, EEB/ESC
STATE PLEASE PASS TO USTDA

E.O. 12958: DECL: 03/06/2059

TAGS: [PGOV](#) [PREL](#) [PINR](#) [ECON](#) [EINV](#) [EPET](#) [AJ](#) [RS](#) [TX](#) [KZ](#)

SUBJECT: KAZAKHSTAN: CONOCO DISCUSSES TURKMENISTAN,
KASHAGAN, AND KULIBAYEV

REF: A. ASTANA 0352

[1](#)B. ASTANA 0529

[1](#)C. ASTANA 1438

Classified By: Ambassador Richard E. Hoagland, 1.4 (b), (d)

[1](#)1. (SBU) SUMMARY: On September 24, senior executives from ConocoPhillips (COP) briefed the Ambassador on their continued pursuit of a natural gas deal in Turkmenistan, the status of the N Block exploration in Kazakhstan's sector of the Caspian, and concerns about exposure and delays with the Kashagan project. They also provided a candid assessment of the changing role and influence of KazMunaiGas (KMG) First Vice President Maksat Idenov in negotiating and closing deals for the government of Kazakhstan. END SUMMARY.

CONTINUED INTEREST IN TURKMENISTAN

[1](#)2. (C) Don Wallette, COP Vice President for Russia and the Caspian Region, told the Ambassador that COP is still very interested in pursuing an exploration and production deal for Blocks 19 and 20 in Turkmenistan. CEO Jim Mulva was scheduled to meet Turkmenistan President Berdimuhamedov during a dinner event in New York on September 24. However, on short notice, Mulva was summoned,⁸ along with senior executives from Shell, Total, ENI, and other international oil companies, to attend a meeting on Russia's Yamal peninsula with Russian President Putin. COP's Chief Operating Officer will join the dinner with Berdimuhamedov in lieu of Mulva.

"A LUKOIL PROBLEM"

[1](#)3. (C) Wallette said that on September 23, COP Vice President Larry Archibald met Yagshygeldi Kakayev, Head of the State Agency for Management and Use of Hydrocarbon Resources, to brief him on COP's proposal to develop Blocks 19 and 20. Kakayev, according to Wallette, was surprisingly blunt and direct, for the first time in two years. Without a doubt, Wallette said, Conoco has a Lukoil problem.⁸ He said that Kakayev told Archibald that the government of Turkmenistan likes ConocoPhillips, but not your partner.⁸

Among the reasons for Turkmenistan's dislike of Lukoil, Wallette suggested that Lukoil may have unintentionally drilled in waters in disputed territory, due to the lack of full delimitation of the Caspian Sea. He also said that Lukoil retained legal advisors that had previously represented the Argentinian company Bidas in a dispute with the Turkmenistani government that went to international arbitration.

14. (C) As a result, Wallette said that Mulva will meet Vagit Alekperov, the CEO of Lukoil, in Russia next week to inform him that COP will not go forward with Lukoil as a partner in Turkmenistan, and that Lukoil will need to stand down. Wallette also mentioned that Conoco may take advantage of the Turkmenistan Investment Forum on October 15 to present a new bid for Blocks 19 and 20, which would not include Lukoil, but would include their partner from Abu Dhabi, Mubadala Corporation, with whom they partnered on the successful N Block bid in Kazakhstan. According to Wallette, British Petroleum (BP) is COP's strongest competition for Blocks 19 and 20. He said the government of Turkmenistan is impressed with BP's experience in Azerbaijan, & although they say they also like ConocoPhillips.⁸ U.S. company Marathan Oil may also be a competitor for the project, Wallette judged.

N BLOCK EXPLORATION

15. (C) Kazakhstan's N Block is still in the early stages of exploration. COP said the next big milestone, after further seismic work, is to drill an appraisal well by the third quarter of 2010. The company is somewhat concerned by the

ASTANA 00001622 002 OF 003

lack of drilling capacity currently in the Caspian Sea. Wallette said that there is only one rig able and available to do the work, and they are now negotiating to lock it up. Other complications include staffing and salary issues. Wallette said that Kazakhstan has a different compensation philosophy⁸ than Conoco. KMG's candidate for the General Director position, for example, was making \$8,000 per month, and is now asking \$24,000 per month before he will accept the new position. Wallette commented that this is way beyond the standard Houston scale.

IDENOV'S INFLUENCE MAY BE WANING

16. (C) Wallette and Regional Director Nick Olds both said that KMG First Vice President Idenov is no longer their primary interlocutor on the N Block project. Instead, that responsibility has been given to Askar Balzhanov, former CEO of KMG Exploration and Production, whom Olds described as a hard-driving businessman, strong advocate for local content, big believer in the fundamental principles of doing business, and a nationalist. Olds also said that Balzhanov is likely under the influence of Timur Kulibayev, President Nazarbayev's son-in-law and Deputy Chairman of Samruk-Kazyna, whose political star continues to rise as he becomes more directly involved in managing the economy (reftel C). Wallette told the Ambassador that he and the other Kashagan consortium partners meet monthly in Paris to discuss the project, and they all agreed that on September 1, & Maksat's world changed dramatically.⁸ According to Wallette, on that day, Idenov was relieved of his responsibility for negotiating the Kazakhstan Caspian Transportation System (KCTS), supervising the N Block project, and overseeing the government's stake in Tengizchevroil (TCO).

FAVORED SON

17. (C) When asked why the change was made, Wallette said he had noticed for some time the & tremendous animosity⁸ between Idenov and Kulibayev. Wallette said Idenov's "eyes get big" when he talks about Kulibayev, and he once complained that he has to do the "dirty work" of negotiating complex, international transactions, whereas Kulibayev is

protected and sheltered by President Nazarbayev. Wallette said Idenov then waved his left arm as if pushing someone behind him, and acted out Nazarbayev telling Kulibayev, &That,s ok, son, you go on back there and just lay low.8 Then he motioned with his right hand. &Now come here, Maksat, and sort this mess out.8 Olds said that Idenov was recently asked to resign his position, but turned to the Prime Minister for support and was able to remain with KMG)- at least for the time being. Idenov has reportedly expressed a strong interest in returning to a position with an international oil company. (NOTE: Idenov was a regional vice president with Shell in the Middle East from 2004-2007. END NOTE).

KASHAGAN EXPOSURE

18. (C) COP also expressed concerns with delays and contractual exposure on Kashagan. Wallette said that more than 700 contracts totaling \$11 billion have piled up, waiting for Idenov,s approval. He said that Idenov has not signed any documents since October 2008, when the Kashagan contract was renegotiated. &He is scared to death that the tax police will come after him,8 Wallette said. &He won,t sign anything. At a certain point, the exposure will be too high and Kashagan will begin to shut down operations. I don't know exactly what our pain threshold is," he said. "It could be \$10 billion, \$20 billion, \$50 billion. But eventually, something, somewhere, will have to give."

19. (C) COMMENT: Conoco's colorful and candid comments offer

ASTANA 00001622 003 OF 003

further evidence of the rising political influence of Kulibayev. In addition to his private business empire, which includes Halyk Bank and engineering/construction firm KazStroiService, Kulibayev is Deputy Chairman of National Welfare Fund Samruk-Kazyna, which owns KMG, Kazatomprom, and more than 90 percent of Kazakhstan's manufacturing sector. He therefore has the ability to direct much of Kazakhstan's economic policies and investment decisions. As his economic role has expanded, so has his political power and public persona, seen on display this week as host of the Eurasian Energy Forum, a week-long conference and exhibition attended by the Prime Minister, other senior government officials, and more than 500 energy executives. Conoco's description of a frightful, paralyzed Idenov is consistent with scenarios being played out elsewhere, as government officials watch the drama of the corruption charges and jail sentences handed down to former high flyers such as Mukhtar Dzhakishev, former head of Kazatomprom. We have heard from multiple sources that senior government and business leaders across the country, and across all sectors, are paralyzed by fear, and extremely reluctant to take risks of any kind, lest they get caught in the anti-corruption net. END COMMENT.
HOAGLAND